

# HAPPINESS AND SHADOW ECONOMY ACROSS THE EUROPEAN UNION

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## **Abstract**

*This paper's goal is to highlight how happiness affects the level of shadow economy, by using many control variables within different types of potentially determining factors of shadow economy. Another main contribution consists in the systematic comparison between old and new European Union member states in terms of determinants of shadow economy, including happiness. Our findings consist in the fact that happier people are more likely to act honestly, thus causing a decrease in the size of shadow economy and this result is valid both for old and new European Union member states. In addition, we found that the quality of public governance and the richness of a country are associated with a lower propensity towards shadow economy for all the member states. Contrary to our expectations, the fiscal pressure seems not to be a determinant for shadow economy in the European Union.*

**Jell classification:** A12, A13, H 26

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